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REPORT
101-305

COPYRIGHT REMEDY CLARIFICATION ACT

JUNE 5 (legislative day, APRIL 18), 1990.—Ordered to be printed

Mr. BIDEN, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany S. 497 and H.R. 3045]

The Committee on the Judiciary, to which was referred the bills (S. 497 and H.R. 3045), having considered the same, reports S. 497 favorably with amendments in the nature of a substitute, and H.R. 3045 without amendment, and recommends that the bills, as amended, do pass.

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The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Copyright Remedy Clarification Act".

SEC. 2. LIABILITY OF STATES, INSTRUMENTALITIES OF STATES, AND STATE OFFICIALS FOR INFRINGEMENT OF COPYRIGHT AND EXCLUSIVE RIGHTS IN MASK WORKS.

(a) COPYRIGHT INFRINGEMENT.—(1) Section 501(a) of title 17, United States Code, is amended by adding at the end the following: "As used in this subsection, the term 'anyone' includes any State,

any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.".

(2) Chapter 5 of title 17, United States Code, is amended by adding at the end the following new section:

"§ 511. Liability of States, instrumentalities of States, and State officials for infringement of copyright

"(a) IN GENERAL.—Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity, for a violation of any of the exclusive rights of a copyright owner provided by sections 106 through 119, for importing copies of phonorecords in violation of section 602, or for any other violation under this title.

"(b) REMEDIES.—In a suit described in subsection (a) for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any public or private entity other than a State, instrumentality of a State, or officer or employee of a State acting in his or her official capacity. Such remedies include impounding and disposition of infringing articles under section 503, actual damages and profits and statutory damages under section 504, costs and attorney's fees under section 505, and the remedies provided in section 510.".

(3) The table of sections at the beginning of chapter 5 of title 17, United States Code, is amended by adding at the end the following new item:

"Sec. 511. Liability of States, instrumentalities of States, and State officials for infringement of copyright.".

(b) INFRINGEMENT OF EXCLUSIVE RIGHTS IN MASK WORKS.—(1) Section 910(a) of title 17, United States Code, is amended by adding at the end the following: "As used in this subsection, the term 'any person' includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.".

(2) Section 911 of title 17, United States Code, is amended by adding at the end the following new subsection:

"(g)(1) Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental

entity, for a violation of any of the exclusive rights of the owner of a mask work under this chapter, or for any other violation under this chapter.

"(2) In a suit described in paragraph (1) for a violation described in that paragraph, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any public or private entity other than a State, instrumentality of a State, or officer or employee of a State acting in his or her official capacity. Such remedies include actual damages and profits under subsection (b), statutory damages under subsection (c), impounding and disposition of infringing articles under subsection (e), and costs and attorney's fees under subsection (f).".

SEC. 3. COSTS AND ATTORNEY'S FEES.

Section 505 of title 17, United States Code, is amended—

(1) in the first sentence by inserting ", a State, or an instrumentality of a State" after "thereof";

(2) by designating the text of such section as subsection (a); and

(3) by adding at the end thereof the following:

"(b)(1) In any civil action under this title against a State or an instrumentality of a State by a party described in paragraph (2)(A), the court may award fees and other expenses as defined in paragraph (2)(B).

"(2) For the purposes of this subsection—

"(A) the term 'party' means—

"(i) a sole proprietor, corporation, partnership, or private and public organization with a net worth of not more than $5,000,000 and not more than 500 employees at the time the civil action was filed;

"(ii) a tax exempt organization as described in section 501(c)(3) of the Internal Revenue Code of 1986 exempt from taxation under section 501(a) of such Code, or a cooperative association, as defined in section 15(a) of the Agricultural Marketing Act with not more than 500 employees at the time the civil action was filed; and

"(iii) an individual with a net worth of not more than $1,000,000 at the time the civil action was filed; and

"(B) the term 'fees and other expenses' includes the reasonable expenses of expert witnesses, the reasonable cost of any study, analysis, engineering report, test, or project which is found by the court to be necessary for the preparation of the party's case, and reasonable attorney fees. (The amount of fees awarded under this subsection shall be based upon prevailing market rates for the kind and quality of the services furnished, except that (i) no expert witness shall be compensated at a rate in excess of the highest rate of compensation for expert witnesses paid by the United States; and (ii) attorney fees shall not be awarded in excess of $75 per hour unless the court determines that an increase in the cost of living or a special factor, such as the limited availability of qualified attorneys for the proceedings involved, justifies a higher fee.).".

SEC. 4. EFFECTIVE DATE.

The amendments made by this Act shall take effect with respect to violations that occur on or after the date of the enactment of this Act.

Amend the title so as to read: "A bill to amend chapters 5 and 9 of title 17, United States Code, to clarify that States, instrumentalities of States, and officers and employees of States acting in their official capacity, are subject to suit in Federal court by any person for infringement of copyright and infringement of exclusive rights in mask works, and that all the remedies can be obtained in such suit that can be obtained in a suit against a private person or against other public entities."

I. PURPOSE

The purpose of S. 497 and H.R. 3045 is to clarify copyright law with respect to the availability of remedies in suits against States or State entities that have infringed valid U.S. copyrights or mask works. S. 497 and H.R. 3045 state clearly Congress' intent that the same remedies shall be available for such infringements by State governmental entities as are available for infringement by nongovernmental entities.

II. LEGISLATIVE HISTORY

Senator DeConcini, with Senators Simon and Hatch, introduced S. 497 on March 2, 1989, at which time it was referred to the Judiciary Subcommittee on Patents, Copyrights and Trademarks. On May 17, 1989, the subcommittee held a public hearing on the bill. On July 26, 1989, the subcommittee approved the bill by a vote of 5 to 1, with an amendment in the nature of a substitute offered by Senator DeConcini, for consideration by the full committee. An amendment offered by Senator Grassley was not agreed to by a vote of 4 to 2.

Companion legislation, H.R. 1131, was introduced in the House of Representatives by Representative Kastenmeier on February 27, 1989. The bill was referred to the House Judiciary Subcommittee on Courts, Intellectual Property and Administrative Practice which held public hearings on the bill on March 4 and on July 11, 1989. On July 25, 1989, Representative Kastenmeier, with Representatives Moorhead, Crockett, Berman, Bryant, Cardin, Boucher, Sangmeister, Hughes, Synar, Hyde and Fish, introduced H.R. 3045, an original measure in lieu of H.R. 1131. On October 3, 1989, H.R. 3045 was ordered reported by the House Judiciary Committee; the report, H. Rept. 101-282 was published on October 13. On October 16, 1989, the bill was considered by the House of Representatives and agreed to by a voice vote. The bill was received in the Senate and on October 18 was referred to the Committee on the Judiciary.

The Senate Committee on the Judiciary considered S. 497 and H.R. 3045 on March 22, 1990. At that time the committee rejected, by a vote of 4 to 9, an amendment proposed by Senator Grassley that would have prohibited the award of all attorneys fees and expenses against the States and State entities, thus equalizing the treatment of the States and Federal Government with respect to costs and fees. The committee accepted Senator Grassley's second

amendment that generally limits the award of attorneys' fees and expenses to individuals with a net worth of $1 million or less, tax exempt entities, and smaller businesses. The amendment also places an hourly cap on attorneys' fees, as in the Equal Access to Justice Act.

III. Discussion

The enactment of the Copyright Remedy Clarification Act is required to reaffirm Congress' intent when it enacted the 1976 Copyright Act that there should be a uniformity of remedies for violations of its provisions regardless of the status of the defendants. This legislation responds to recent Federal court decisions holding that the 1976 Copyright Act lacks the specific and unequivocal language necessary to overcome the immunity from suit in Federal court that the eleventh amendment to the U.S. Constitution affords to the States. Federal courts have exclusive subject matter jurisdiction under Federal copyright laws pursuant to section 1338(a) of title 28 of the United States Code. Exclusive Federal court jurisdiction in tandem with eleventh amendment immunity allows the States and their subdivisions to violate authors' copyrights with impunity from damages. As a consequence, copyright owners are without an effective remedy for State infringements on their rights.

Under this legislation, owners of copyright and mask works facing State infringement of their rights would have available to them the full panoply of civil remedies: injunctive relief, actual and statutory damages and seizures of infringing articles. Recovery of fees and other expenses of litigation are limited only by the Grassley amendment, consistent with the Equal Access to Justice Act.

THE 1976 COPYRIGHT ACT (17 U.S.C. SECTIONS 101 ET. SEQ.)

In 1976 Congress enacted a new copyright law with the intent that States continue to be liable for infringing on copyrights except in situations where the State's conduct is expressly exempted from copyright liability. A number of the act's provisions demonstrate the intent to include States as potential defendants. Section 501(a) broadly defines a copyright infringer as "[a]nyone who violates any of the exclusive rights of the copyright owner. . . ." Section 110 exempts certain acts of Government bodies from infringement provisions and the former manufacturing clause (sections 601 and 602) exempts certain importations by States. Taken as a whole, the act evinces a clear intent that its provisions apply to the States. "If Congress had not intended States to be subject to damage suits in Federal court, it would not have included express exemptions from copyright liability for certain State activity." [1] The debate on the 1976 act specifically focused on the extent to which States should be exempt from full liability. At that time no one suggested the States were already immune from damages liability under the eleventh amendment.[2]

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[1] Statement of Ralph Oman, Register of Copyrights before the Senate Subcommittee on Patents, Copyrights and Trademarks hearing on May 17, 1989, 26–7.

[2] *Id.*

Furthermore, States and their instrumentalities routinely seek copyright protection for their own works. This point was well known to Congress in 1976 when it revised the copyright laws.[3] Neither the act nor its legislative history supports the contention Congress intended the States to enjoy the protections of the Copyright Act without suffering the consequences when they violate its provisions.

Congressional intent to abrogate State sovereign immunity is easily devined from the act itself and from its legislative history. At the time Congress drafted the act, however, it did not have the benefit of subsequent Supreme Court decisions regarding the constitutional requirements for Congress to abrogate State immunity. Under these decisions, legislative history is irrelevant as an expression of Congress' intention. The Court has held that the language of the statute must be unmistakeably clear and specific. The bills that are the subject of this report conform to the Court's holdings in this regard.

THE ELEVENTH AMENDMENT

State Immunity

The eleventh amendment provides that Federal court jurisdiction shall not be construed to extend to certain suits against the States by citizens of another State. The States ratified the eleventh amendment in 1795 as a direct response to a Supreme Court decision 2 years earlier in which the Court held that a State could be sued in Federal court by a citizen of another State for repudiation of its Revolutionary War debts.[4] For almost a century, courts construed the amendment narrowly, only preventing Federal suits against States based on diversity. In an 1890 decision, however, the Supreme Court extended the language of the eleventh amendment to prevent a citizen from suing his own State even when jurisdiction was based on a Federal question.[5] In this decision, the Court departed from the literal language of the amendment and adopted the theory that the amendment incorporates the common-law principle of sovereign immunity.

In later decisions, the Supreme Court acted to limit the reach of the eleventh amendment. In *Ex Parte Young*[6], for example, the Court held that a suit against a State official for injunctive relief is not a suit against the State,[7] and thus, not barred by the eleventh amendment. During the twentieth century, the Court first expanded, then contracted, exceptions to eleventh amendment immunity. In the 1950's and 1960's, the Court ruled that States could impliedly waive immunity by entering into activities subject to congres-

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[3] Most States have enacted statutes allowing them to secure copyrights for their publications, and even in the absence of a statute almost all States have claimed copyrights in some of its publications. A Copyright Office survey indicated that between 1950 and 1954, States or State agencies registered about 4,700 copyright claims. *See* Statement of the Copyright Remedies Coalition on S. 497 before the Subcommittee on Patents, Copyrights and Trademarks, Senate Judiciary Committee, May 17, 1989, n. 5, pp. 5–6.

[4] *Chisholm* v. *Georgia*, 2 U.S. (2 Dall.) 419 (1793).

[5] *Hans* v. *Louisiana*, 134 U.S. 1 (1890).

[6] 209 U.S. 123 (1908).

[7] Based on this precedent, copyright owners can currently obtain injunctive relief against infringing State officials. Injunctive relief alone, however, is inadequate to compensate the owner or deter State violations.

sional regulation.[8] By the 1970's it had abandoned the implied waiver doctrine in decisions holding a court can find waiver by a State "only where stated 'by the most express language or by such overwhelming implications from the text as [will] leave no room for any other reasonable construction.' " [9]

Congressional abrogation of State immunity

Whether Congress could abrogate State immunity became an issue in the 1950's with the Supreme Court's decisions protecting civil rights against overt State violations. In *Fitzpatrick* v. *Bitzer* [10] the Court created an exception to the eleventh amendment based on the enforcement provisions of section 5 of the fourteenth amendment. Congress could subject States to suits brought by individuals to enforce statutes, although there had to be clear evidence of congressional authorization to include the States within the class of defendants. Under the *Fitzpatrick* rationale a legislative history that provided clear evidence of such intent was sufficient to subject States to liability for damages.[11]

Courts relied on the *Fitzpatrick* decision and the legislative history of the 1976 act to hold States liable for damages in copyright infringement cases. In 1985, however, the Supreme Court decided *Atascadero State Hospital* v. *Scanlon.*[12] This decision increased the level of specificity required of Congress to override the eleventh amendment. The Court held that the Federal law must contain "unequivocal statutory language" evidencing Congress' intent, and that the statute must specifically include States within the class of defendants subject to its reach.[13]

Although not a copyright case, *Atascadero* had an immediate effect on the outcome of suits against States for copyright infringement. Prior to *Atascadero,* States had been liable for damages in copyright cases, but after this decision several lower courts agreed that States are immune from damages in suits brought under the copyright laws. In a copyright case decided three months before *Atascadero,* a Federal district court held that the language of section 501(a) was sufficiently broad to include States and their instrumentalities within the class of defendants.[14] In a decision handed down 6 months later, 2 months after *Atascdero,* another district court ruled that under the new Supreme Court standard expressed in *Atascadero,* the eleventh amendment provides States with immunity from damage suits brought under the Copyright Act.[15] The latter court decided that although the language in section 501(a) arguably was intended to include States, such language was not a sufficient expression of intent to abrogate State immunity under *Atascadero.* Since *Atascadero* no copyright case involving the issue of State immunity has been accepted for review by the Supreme Court.

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[8] *Parden* v. *Terminal Railway of Alabama, 377 U.S. 184, 196 (1964).*
[9] *Endelman* v. *Jordan,* 415 U.S. 651, 673 (1974) (citations omitted).
[10] 427 U.S. 445 (1976).
[11] *Hutto* v. *Finney,* 437 U.S. 678 (1978).
[12] 473 U.S. 234 (1985).
[13] Id. at 246.
[14] *Johnson* v. *University of Virginia,* 606 F. Supp. 321 (W.D. Va. 1985).
[15] *Woelffer* v. *Happy States of America, Inc.,* 626 F. Supp. 499 (N.D. Ill. 1985).

One question raised by *Atascadero* and other sovereign immunity cases is whether Congress has the power under article I of the Constitution to abrogate the immunity of States.[16] The recent decision in *United States* v. *Union Gas Co.*[17] affirmatively answered the question that Congress does have the power to abrogate when it legislates under the Commerce Clause.[18] The same reasoning applies to the Copyright Clause that also grants Congress plenary power to enact Federal legislation.[19]

The *Atascadero* decision established a stringent standard that Congress must meet before it can effectively exercise its article I powers over the States. Several recent Supreme Court decisions have reinforced the standard with the result that if there is any possible way that the language of the statute can be construed not to authorize money damages against States, plaintiffs will be denied this remedy.[20] This will be true even if the statute applies to "any person" or "entity" and defines these terms to include States. The consequence of these Supreme Court decisions is that when Congress intends to abrogate State sovereign immunity the statutory language must leave no room for doubt that the States are subject to the statute's substantive requirements and that States which violate these requirements are liable for monetary relief. Thus, the Constitution requires the technical revisions proposed by S. 497 and H.R. 3045 in order to effect Congress' intent to subject States to the full range of remedies for copyright violations.

The Supreme Court decisions upholding State sovereign immunity have had a disparately adverse effect on copyright owners. Unlike others whose remedies are foreclosed by eleventh amendment immunity, corpyright owners are only able to seek relief in Federal court. The result has been to deny copyright owners all but injunctive relief for State infringements of their exclusive rights that are granted by Federal law.

Injunctions against copyright infringement are like closing the barn door after the horses have run away. The damage has already been done, and under present law there is no way to remedy that damage. Copyright owners have thus turned to Congress to clarify its intent, this time using the *Atascadero* standard, that all of the remedies in the Copyright Act are available when States are the infringing parties. The ninth circuit recognized the problem and invited congressional action in its 1988 decision in *BV Engineering* v. *UCLA*.[21]

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[16] States have contended that only the fourteenth amendment gives Congress the power to subject States to private suits for money damages. *See* Statement of Carol F. Lee before the Subcommittee on Courts, Civil Liberties and the Administration of Justice, House Judiciary Committee on July 11, 1989. pp. 3-5.

[17] 109 S.Ct. 2273 (1989).

[18] In *Union Gas* Justice Brennan wrote that the Commerce Clause "withholds power from the States at the same time as it confers it on Congress." Statement of Carol F. Lee, *supra*, note 16, n. 5 at 3.

[19] *Id.* Justice Brennan cites *Mills Music, Inc.* v. *Arizona*, 591 F.2d 1278 (9th Cir. 19), a copyright case, to support his assertion that every court of appeals to reach the issue has concluded that Congress has authority to abrogate State immunity pursuant to its plenary powers under the Constitution.

[20] *Id.* at 4, citing *Union Gas, Hoffman* v. *Connecticut*, 109 S.Ct. 2818 (1989) and, *Dellmuth* v. *Muth, 109 S.Ct. 2397 (1989).*

[21] 858 F.2d 1394 (9th Cir. 1988).

> Although we find these arguments compelling, we are constrained by the Supreme Court's mandate that we find an abrogation of eleventh amendment immunity only when Congress has included in the statute unequivocal and specific language indicating an intent to subject states to suit in federal court. Such language is absent from the Copyright Act of 1976. We recognize that our holding will allow states to violate the federal copyright laws with virtual impunity. It is for Congress, however, to remedy this problem.[22]

State immunity from damages critically impairs creative incentive and business investments in the country's copryight businesses that deal with State entities. These include the creators and producers of computer data bases, software, scholarly books and journals, textbooks, educational testing materials, microfilm, educational video materials, music and motion pictures. All of these businesses, large and small, are hurt by the current state of the law. Among those the most vulnerable are educational publishers whose principal markets are State universities. It is not only business enterprises that are hurt by State infringements, but individuals, primarily students and public colleges and universities, who pay the price of State immunity through higher prices and lower quality of materials.[23]

The current state of the law has resulted in the anomalous situation that public universities can infringe copyrighted material of private universities without liability for damages, but private universities canot similarly infringe with impunity on the works created by public institutions. Thus, UCLA can sue USC for damages from copyright infringement but USC cannot collect damages from UCLA for the same unlawful activity. While this is a graphic example of the inherent unfairness of the copyright laws, the problems for copyright owners are much broader. For a copyright proprietor who sells his or her products to educational institutions, it is puzzling that State schools cannot be sued for damages for their systematic unauthorized copying, but private institutions can be.[24] A substantial segment of these companies' market is beyond the reach of the most important remedy provided by the Copyright Act.

CONSEQUENCES OF IMMUNITY

In response to the Federal court decisions holding States immune from damages for copyright infringement the House Subcommittee on Courts, Civil Liberties and the Administration of Justice requested the Copyright Office to conduct a study on the problems

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[22] Id. at 1400.

[23] State colleges and universities represent the greatest share of the college textbook market. Seventy-nine percent of the students at institutions of higher learning in this country attend State schools. *See* Statement of Robert A. Schmitz on S. 497 before the Subcommittee on Patents, Copyrights and Trademarks, Senate Committee on the Judiciary on May 17, 1989, p. 3.

[24] *See* Statement of James L. Healy, Jr., before the Subcommittee on Patents, Copyrights and Trademarks, Senate Committee on the Judiciary, May 17, 1989, pp. 2-3. "[T]he line drawn between state and private entities in this context is a distinction without a difference. It does not make any difference whether [our company's] products are unlawfully copied by a state or a private institution. The impact on our bottom line, on the future viability of our company, is the same." *Id.* at 3.

relating to the conflict between the eleventh amendment and the Copyright Act. The Copyright Office published a request for comments in the Federal Register. Of the 44 comments received in response, the majority were from copyright owners chronicling "dire financial and other repurcussions that would flow from eleventh amendment immunity for damages in copyright infringement suits." [25] There was not a single comment describing an incident of unfair practices perpetrated by copyright owners vis-a-vis State users. Copyright owners denied knowledge of any such abuses. One commentator argued that in fact, the educational publishing field was highly competitive with the State agencies enjoying a substantially more powerful position than the owners and able to negotiate significant consessions from the publishers that go far beyond fair use or the education guidelines in the legislative history of the 1976 Copyright Act.[26]

The Copyright Office concludes and the committee agrees that copyright owners have demonstrated that they will suffer immediate harm if they are unable to sue infringing States for damages. The copyright owners' primary concern is that States or their instrumentalities would engage in widespread uncontrollable copying of their work without renumeation. The owners warn that if State agencies are not required to pay for use of copyright material, software companies and textbook publishers will not be able to economically market creative works to State entities. Continued State immunity from damage suits will result in such adverse consequences as increases in the prices charged non-State users, diminution in the economic incentive to create new works, and decline in the quantity and quality of published works. Because the education market is among the largest industries affected, our colleges and universities will be the major losers from a decline in quality and quantity of educational materials. Small companies in particular could be put out of business or at a minimum, be forced to pass the higher costs resulting from lost business on to consumers. The larger entities will also have reduced profits in which to reinvest in educational markets.

Respondents to the Copyright Office request related specific instances where State immunity has directly affected a copyright proprietor's rights. A small business provided a training video to a Texas Federal prison to solicit sales. Officials copied the tape and returned the original without remuneration. The business now fears similar problems with other institutions. The Motion Picture Association of America reports problems with State correctional institutions publicly showing motion pictures without authority. Although most discontinue unauthorized use when informed of the infringement, at least two States have asserted eleventh amendment immunity. A company that licenses performance rights for musical compositions withdrew an infringement suit against a community college because it was too expensive to contest the defendant's claim of sovereign immunity. Similarly, a nursing publisher could not afford to enjoin a nursing home affiliated with a State

[25] "Copyright Liability of State and the Eleventh Amendment," a report of the Register of Copyrights, June 1988, at p. iii.
[26] *Id.* at p. 11.

subdivision from operating an information center that copied and sold the publisher's works because the publisher couldn't recover attorney's fees and couldn't afford to proceed without their recovery.[27]

Additionally, when a copyright owner loses control over the use of its work, it lacks knowledge of who users are and may find itself subject to a product liability suit without having received compensation for its risk exposure. Without knowing the identity of the actual user, a owner is unable to provide updated information or support services for its product.

The effects of copyright infringement are not limited to business entities. Such abuses also affect third parties, such as textbook authors, who may be the primary copyright holder. Most textbook authors have regular teaching jobs and, in fact, it is almost necessary that they do. If deprived of their income from royalties, many could not afford to expend the effort required to produce the textbooks.[28]

In addition to its negative effect on the educational publishing market, the committee has received testimony that State immunity from copyright infringement suits would discourage the creation of computer software for use by State governments.

During the subcommittee hearing, the chief executive officer of one of the Nation's largest independent software companies cited the experience of his company immediately following publication of a front page story in a leading industry trade journal about the *B.V. Engineering* decision. The executive told the subcommittee that a large State had been using one of the companies' products on a tryout basis. If the tryout succeeded, the State intended to license three copies of the computer program at a price of $100,000 per copy. After publication of the article, however, a senior State employee, citing the *B.V. Engineering* decision, told the company that the State no longer intended to license three copies but instead only planned to buy one. The witness testified that the response of his company to continue State copyright immunity would be either to raise prices, knowing that licensing a single copy to a State is tantamount to giving a broad license for unlimited copying, or to withdraw from the market entirely—exactly the opposite effect from that intended by the Copyright Act.

The committee finds it particularly disturbing that one of the leading cases applying States immune to copyright infringement, the *B.V. Engineering* case, involved copying of the computer program of a small, entrepreneurial software company with revenues of less than $250,000 by a large State entity. Already generating more than $35 billion per year in revenues, the computer software industry is currently growing at a rate of 20 percent per year. U.S. companies hold a 70-percent share of the worldwide market, making the industry a major source of export revenue for the Nation. Many of the leading companies generating this export began as small startup companies, like B.V. Engineering, less than a decade ago. Disregard for copyright protection by institutions as large as State governments will not only threaten markets for

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[27] Copyright Office Report, pp. 7-10.

[28] *See* Letter from M.L. Keedy, Textbook Authors Association, to Senator DeConcini, dated Jan. 16, 1989, attached to statement of Copyright Remedies Coalition, *supra*, note 3.

these companies in the United States, but encourage disregard for copyright abroad—potentially threatening one of the major trade assets of the United States.

INADEQUACY OF CURRENT REMEDIES

In addition to protecting access to the only available forum, this legislation will ensure that copyright owners have effective remedies when States violate the Copyright Act. Under current law, State officials and employees may be enjoined from future violations of the Copyright Act, but under the *Atascadero* decision, States cannot be sued for damages. Injunctive relief for copyright violations does not provide adequate compensation or effective deterrence for copyright infringement.

Injunctive relief is inadequate as a means of protecting copyrighted material for a number of reasons. Injunctions only prohibit future infringements and cannot provide compensation for violations that have already occurred. The time factor involved from the discovery of the infringement to obtaining the injunction can be extensive which makes this remedy totally ineffective for works of limited life. Some copyrighted materials, such as music, don't furnish a tangible product which can be withheld, thus the only meaningful remedy for infringement is damages. And last, injunctive actions are prohibitively expensive, especially for small companies, as there is no reimbursement for attorneys' fees for the prevailing party.

Enforcing an injunction is also more difficult than executing a damage award. Injunctive relief for future infringements requires a motion for contempt and the additional expenses of proving performances after the injunction has been granted. In addition, injunctions are awarded against specific individuals and not the State itself. Thus, after the time and expense of obtaining an injunction, it may be worthless if the specific individual doesn't participate in future acts of State infringement.

This legislation responds to the deficiencies under the current law. After enactment, aggrieved individuals will be able to obtain both an injunction and damages for State infringement. Taken together, the available remedies will be an effective deterrent to those State entities which might become too casual about copyright owners' property rights or which might intentionally disregard the Copyright Act.

S. 497 in no way enlarges upon the substantive rights of a copyright proprietor, but merely clarifies congressional intent that State entities are subject to the penalties of the copyright laws just as they are able to enjoy its protections. In 1976 when Congress drafted the Copyright Act it believed that the language it employed was sufficient to bring States within the class of defendants; and indeed it was sufficient for 10 years. The Supreme Court's subsequent interpretation of the constitutional requirements necessary to abrogate eleventh amendment imunity requires the enactment of this legislation if the uniformity of the original Copyright Act is to be restored.

IV. Vote of the Committee

On March 22, 1990, the Judiciary Committee considered S. 497 and H.R. 3045. The committee accepted an amendment by Senator Grassley, by voice vote, to allow the award of attorney's fees and expenses against the States only in cases brought by businesses with not more than 500 employees and a net worth of not more than $5 million, tax exempt organizations, and individuals with a net worth of not more than $1 million. The committee rejected by a vote of 4 to 9, an earlier amendment by Senator Grassley to entirely preclude the award of attorney's fees and costs against the States. The members then agreed to favorably report S. 497, as amended, by voice vote. The committee next agreed to substitute the text of S. 497, as amended, for the text of H.R. 3045, and favorably reported it also.

VI. Section-by-Section Analysis

SECTION 1

This section establishes the short title of this legislation as the "Copyright Remedy Clarification Act."

SECTION 2

This portion of S. 497 defines the defendant class to include States, their instrumentalities, and their officers. Under existing Supreme Court interpretations, however, definitions and a clear legislative history alone are not sufficient to abrogate State immunity from suit in Federal court under the eleventh amendment. The addition of Congress' express authorization to abrogate State immunity is required.

This section is comprised of two parallel subsections that respectively address copyright infringements and violations of exclusive rights to mask works. First, they amend sections 501(a) and 910(a) of title 17, United States Code, by specifically defining the defendant class to include "any State, and instrumentality of a State, and any officer or employee of a State acting in his or her official capacity." The two sections, as amended, also expressly declare that the States, their instrumentalities, and their employees are subject to the provisions of title 17 to the same extent as any nongovernmental entity.

This section also amends chapters 5 and 9 of title 17 by adding section 511 subtitled "Liability of States, instrumentalities of States, and State officials for infringement of copyright," and a new parallel subsection (g) to section 911, respectively. These additions specifically declare that States shall not be immune under the eleventh amendment or any other doctrine of sovereign immunity from suit in Federal court for copyright infringement or violations of exclusive mask rights. Additionally, proposed section 511(b) and 911(g)(2) provide that both damages and equitable relief are available for State violations of exclusive rights in the same manner and to the same extent they are available against any other private or public entity. These sections enumerate each such remedy, so that it will be absolutely clear that Congress does not intend to provide only injunctive or declaratory relief. Available

remedies are specified as including impoundment and disposition of the infringing articles, actual damages and profits and statutory damages, costs and attorney's fees under section 505, and remedies provided in section 510.

The enumerated remedies are those relating to the recovery of money or property. S. 497 and H.R. 3045 also state in general terms that "remedies both at law and in equity" are available against a State, instrumentality of a State, or officer or employee acting in an official capacity. Thus, it makes clear that other remedies, such as declaratory and injunctive relief, will continue to be available to plaintiffs suing for violations of the Copyright Act or the Semiconductor Chip Protection Act.

SECTION 3

The Senate Committee on the Judiciary added this section after it was offered by Senator Grassley, who expressed concerns about the exposure of the States and their instrumentalities to high attorney's fee awards. While the committee declined to erect a complete bar to the award of fees and costs because it would discourage many individuals and small businesses from pursuing court remedies for State infringements, the committee agreed to the following compromise proposed by Senator Grassley regarding costs and attorney's fees.

Section 505 of title 17, United States Code, provides that the court has discretion to award the recovery of full costs against any party other that the United States and allows the award of reasonable attorney's fees to the prevailing party.

S. 497 and H.R. 3045 amended section 505 by including "a State or an instrumentality" among those whom now may be liable for the prevailing plaintiffs' reasonable costs and attorney's fees. Both bills also add a new subsection (b) to section 505 that further provides that in a civil action under title 17 against a State or its instrumentalities, the court may award fees and other expenses if the prevailing plaintiff meets certain criteria. Parties eligible to receive fees and expenses include sole proprietors, corporations, or private and public organizations with a net worth not greater than $5 million and not more than 500 employees; tax exempt organizations as defined in the Internal Revenue Code of 1986, or cooperative associations as defined in the Agricultural Marketing Act with not more than 500 employees; and individuals with net worths not more than $1 million.

The definition of "fees and other expenses" under copyright law includes reasonable expenses of expert witnesses, reasonable costs of studies, analyses, engineering reports, tests or projects which the court finds to be necessary for the preparation of the party's case, and reasonable attorney's fees based on prevailing market rates. This section puts a limit on the compensation of expert witnesses to the highest rate paid for such witnesses by the United States and a cap on attorney's fees to $75 per hour, unless the court determines a special factor justifies a higher fee.

SECTION 4

The amendments under this act are effective only as to violations occurring after the effective date of the law. The effective date is the date of enactment.

VI. Agency Views

The Register of Copyrights testified regarding this legislation both before the House and the Senate subcommittees. The Copyright Office supports the enactment of this legislation.

VII. Cost Estimate

In accordance with paragraph 11(a), rule XXVI, of the Standing Rules of the Senate, the committee offers the Report of the Congressional Budget Office:

U.S. Congress,
Congressional Budget Office,
Washington, DC, March 27, 1990.

Hon. Joseph R. Biden, Jr.,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has reviewed S. 497, the Copyright Remedy Clarification Act, as ordered reported by the Senate Committee on the Judiciary, March 22, 1990. Based on information from the Copyright Office, we expect that enactment of the bill would result in no cost to the federal government.

In 1985, the U.S. Supreme Court, in *Atascadero State Hospital* v. *Scanlon,* held that Congressional intent to abrogate State sovereign immunity must be explicitly stated in law. A number of federal circuit courts have applied this reasoning to copyright law in deciding that sovereign immunity bars plaintiffs in copyright infringement suits from recovering money damages from State defendants. S. 497 would specify in law that states and their instrumentalities may be held liable for money damages for infringement of copyrighted materials. In addition, the bill would limit the award of attorney's fees and other expenses in actions against a state.

Enactment of the bill would result in some costs to state and local governments to the extent that money damages are awarded for copyright infringement suits that are successfully brought against the states. We cannot estimate these costs, because they would depend on the extent and results of legal actions that we cannot predict. It is unlikely that the costs incurred by states and localities would be substantial.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Douglas Criscitello, who can be reached at 226-2860.

Sincerely,

James L. Blum
(For Robert D. Reischauer).

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 27, 1990.

Hon. JOSEPH R. BIDEN, Jr.,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.R. 3045, the Copyright Remedy Clarification Act, as ordered reported by the Senate Committee on the Judiciary, March 23, 1990. Based on information from the Copyright Office, we expect that enactment of this legislation would result in no cost to the federal government.

In 1985, the U.S. Supreme Court, in *Atascadero State Hospital v. Scanlon,* held that Congressional intent to abrogate state sovereign immunity must be explicitly stated in law. A number of federal circuit courts have applied this reasoning to copyright law in deciding that sovereign immunity bars plaintiffs in copyright infringement suits from recovering money damages from state defendants. H.R. 3045 would specify in law that states and their instrumentalities may be held liable for money damages for infringement of copyrighted materials. In addition, the act would limit the award of attorney's fees and other expenses in actions against a state.

Enactment of H.R. 3045 would result in some costs to state and local governments to the extent that money damages are awarded for copyright infringement suits that are successfully brought against the states. We cannot estimate these costs, because they would depend on the extent and results of legal actions that we cannot predict. It is unlikely that the costs incurred by states and localities would be substantial.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Douglas Criscitello, who can be reached at 226-2860.

Sincerely,

JAMES L. BLUM
(For Robert D. Reischauer).

VIII. REGULATORY IMPACT STATEMENT

Pursuant to paragraph 11(b), Rule XXVI of the Standing Rules of the Senate, the committee, after due consideration, concludes that the act will not have direct regulatory impact.

IX. CHANGES IN EXISTING LAW

In compliance with paragraph 12 of Rule XXVI of the Standing Rules of the Senate, changes in existing law made by S. 497 and H.R. 3045, as reported, are shown as follow (existing law proposed to be omitted is enclosed in black brackets; new material is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 17, UNITED STATES CODE

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CHAPTER 5—COPYRIGHT INFRINGEMENT AND REMEDIES

§ 501. Infringement of copyright

(a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118, or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright. *As used in this subsection, the term "anyone" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.*

* * * * * * *

SEC. 505. REMEDIES FOR INFRINGEMENT: COSTS AND ATTORNEY'S FEES

(a) In any civil action under this title, the court in its discretion may allow the recovery of full costs by or against any party other than the United States or an officer thereof[.], *a State, or an instrumentality of a State.*

(b)(1) In any civil action under this title against a State or an instrumentality of a State by a party described in paragraph (2)(A), the court may award fees and other expenses as defined in paragraph (2)(B).

(2) For the purposes of this subsection—

(A) the term 'party' means—

(i) a sole proprietor, corporation, partnership, or private and public organization with a net worth of not more than $5,000,000 and not more than 500 employees at the time the civil action was filed;

(ii) a tax exempt organization as described in section 501(c)(3) of the Internal Revenue Code of 1986 exempt from taxation under section 501(a) of such Code, or a cooperative association, as defined in sectiion 15(a) of the Agricultural Marketing Act with not more than 500 employees at the time the civil action was filed; and

(iii) an individual with a net worth of not more than $1,000,000 at the time the civil action was filed; and

(B) the term "fees and other expenses" includes the reasonable expenses of expert witnesses, the reasonable cost of any study, analysis, engineering report, test, or project which is found by the court to be necessary for the preparation of the party's case, and reasonable attorney fees. (The amount of fees awarded under this subsection shall be based upon prevaling market rates for the kind and quality of the services furnished, except that (i) no expert witness shall be compensation for expert witnesses paid by the United States; and (ii) attorney fees shall not be awarded in excees of $75 per hour unless the court

determines that an increase in the cost of living or a special factor, such as the limited availability of qualified attorneys for the proceedings involved, justifies a higher fee.).

§ 511. Liability of States, instrumentalities of States, and State officials for infringement of copyright

(a) IN GENERAL.—Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity, for a violation of any of the exclusive rights of a copyright owner provided by sections 106 through 119, for importing copies of phonorecords in violation of section 602, or for any other violation under this title.

(b) REMEDIES.—In a suit described in subsection (a) for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any public or private entity other than a State, instrumentality of a State, or officer or employee of a State acting in his or her official capacity. Such remedies include impounding and disposition of infringing articles under section 503, actual damages and profits and statutory damages under section 504, costs and attorney's fees under section 505, and the remedies provided in section 510.

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CHAPTER 9—PROTECTION OF SEMICONDUCTOR CHIP PRODUCTS

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§ 910. Enforcement of exclusive rights

(a) Except as otherwise provided in this chapter, any person who violates any of the exclusive rights of the owner of a mask work under this chapter, by conduct in or affecting commerce, shall be liable as an infringer of such rights. *As used in this subsection, the term "any person" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.*

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§ 911. Civil actions

(g)(1) Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her capacity, shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovermental entity, for a violation

of any of the exclusive rights of the owner of a mask work under this chapter, or for any other violation under this chapter.

(2) In a suit described in paragraph (1) for a violation described in that paragraph, remedies (including remeides both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any public or private entity other than a State, instrumentality of a State, or officer or employee of a State acting in his or her official capacity. Such remedies include actual damages and profits under subsection (b), statutory damages under subsection (c), impounding and disposition of infringing articles under subsection (e), and costs and attorney's fees under subsection (f).

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